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Report Highlights:

The drought that affected much of Australia in 2002 and into 2003 is breaking down. Beef production is expected to remain at relatively high levels in 2003 and 2004, only marginally below the record set in 2002. Similarly strong export performance is expected for beef and live cattle. The pork industry is expected to benefit from falling feed grain prices. Pork imports and exports are expected to remain at near-record levels.

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SECTION ONE: SITUATION AND OUTLOOK

Drought conditions that affected much of the Australian continent in 2002 and into the first part of 2003 are breaking down, with precipitation returning to a much more normal pattern. Fodder availability for range fed livestock has improved markedly in recent months; however, fodder reserves and feed prices have yet to return to more normal levels. Even with a complete return to more normal weather conditions, the drought's impacts will continue to linger for the next couple of years.

The drought forced many producers to sell animals, some of which were already stressed, due to a lack of feed and water. The surge in the number of animals being marketed led to a general fall in animal prices and reduced cattle inventory. With the improving weather, cattle inventories are estimated to have bottomed-out and are expected to begin rising through the remainder of 2003 and into 2004, as producers seek to rebuild their herds. This would resume the up trend in cattle numbers that began in the mid 1980's.

The drought and lower sale yard prices substantially trimmed incomes of cattle producers in 2002/03, following the record prices and favorable industry conditions in 2001/02. The relatively high level of financial returns to livestock enterprises that characterized 2001/02 has partially cushioned producers from the steep drop in incomes that many experienced during the drought.

High feed grain prices brought on by the drought also reduced the profitability of Australia's cattle feedlot and swine sectors and trimmed inventories of cattle on feed and pigs. Lower feed grain prices of late are providing some relief to these intensive livestock feeders whose cost structure is heavily influenced by grain prices.

Beef and veal production is expected to remain at relatively high levels in 2003 and 2004, only marginally lower than the record output of 2002. Similarly, exports are expected to stay strong in 2003 and 2004, just short of the record export level recorded in 2001. The United States and Japan are the leading markets for Australian beef, taking about two-thirds of all shipments. Live cattle exports are also expected to continue at near-record levels through 2004.

Australia's pork industry was also negatively impacted by the drought, as rising feed costs sharply reduced industry profitability. Pork production dropped in 2002 and is expected to fall in 2003 before rising in 2004. Pork exports and imports both remain at near-record levels. Australia's exports of pork, principally to Singapore and Japan, have risen steeply in recent years. Pork imports are also up sharply, with Canada and Denmark the leading suppliers. A preliminary quarantine import risk analysis released in August 2003 indicates that the United States may gain some access to Australia for pork.

The Australian dollar has risen sharply against the U.S. dollar since reaching a low point in early 2001. This reverses a trend of the Australian currency falling in value against the U.S. dollar throughout most of the 1990's and into 2000. The longer-term decline in the Australian dollar was a major contributor to the strong growth in Australia's livestock and product exports in recent years. The recent strengthening of the Australian dollar has negatively affected the profitability of the very export oriented livestock sector. In August 2003, the Australian dollar averaged about US\$0.66.

SECTION TWO: STATISTICAL TABLES

See attached appendices.

SECTION THREE: NARRATIVE ON SUPPLY AND DEMAND, POLICY AND MARKETING

CATTLE

Production

Australia's cattle production and marketing systems vary considerably from the north of the country to the south. The cattle industry in the north is more typically characterized by a relatively small number of large-scale producers raising mostly Brahman-blooded (*bos indicus*) animals on land extensive operations. Northern cattle have traditionally been sold as mature lean meat for processing or for the live cattle export trade. In the south, European cattle breeds (*bos taurus*) and their crosses dominate and animals are typically raised on mixed farming and grazing enterprises, with a significant amount of beef also derived from the dairy industry. Cattle raised in the south are more likely to be destined for domestic consumption than the more export-oriented north. In addition, Australia has a growing grain-fed cattle industry, which services the domestic and export markets in Japan and Korea.

In fiscal year 2002/03 (July/June), Australian cattle prices averaged 258 Australian cents per kilogram (dress weight), 16 percent lower than the record high of 307 cents a kilogram in 2001/02, but above the average price in 2000/01. Pending a return to more normal weather, the Australian Bureau of Agriculture and Resource Economics (ABARE) projects cattle prices will rise about nine percent in 2003/04 to an average of 282 cents per kilogram. Longer term, ABARE forecasts cattle prices falling from the 2003/04 level, to 243 cents in 2007/08.

**TABLE 1: Australian Cattle Prices, (Fiscal Years) 1996-2003
(national average dress weight price)**

Saleyard Price	1996	1997	1998	1999	2000	2001	2002	2003
Aus cents/kg	155.3	162.6	181.0	204.3	237.1	307.2	258.0	282.0

Source: ABARE. Indicator year is first year of July-June fiscal year.

Inventory: Closing inventory for calendar year 2003 is expected to total 27.5 million head, 600,000 head higher than the previous year (for cattle and beef, all years are expressed in calendar year, unless otherwise indicated.) This figure is slightly higher than projections from Meat and Livestock Australia (MLA) and ABARE. A return of more normal weather conditions, combined with relatively favorable cattle prices, should continue to boost inventories. A greater increase is likely to be constrained by stronger year-to-date live export performance and a slow return to more normal carrying capacities.

Cattle inventory is forecast to close higher in 2004, at 28.35 million head, with the anticipated return to more normal weather increasing both pasture availability and fodder reserves. Despite a less than complete breakdown in drought conditions, producers are optimistic about the medium-term outlook for beef. This would represent the highest inventory level since the later part of the 1970's.

Opening 2002 inventory is estimated at 27.87 million head, in line with figures from the Australian Bureau of Statistics (ABS). MLA has revised 2002 cattle numbers downward to 28.0 million head. Post estimates closing 2002 inventory at 26.9 million head, representing a decline of about one million head from the beginning of the year and reflecting the severe drought conditions that characterized 2002.

According to ABARE's historical data, about half of the Australian beef herd in the 2001 were carried on properties in the northern part of Australia (Queensland, Northern Territory and northern Western Australia. This area of the country also supplies about 75-80 percent of animals for the live cattle trade.

Production (Calf Crop): The calf crop is projected at 10.15 million head in 2003, up over one million from the drought-reduced levels of 2002. In 2004, calf production is expected to remain at a relatively firm 9.95 million head. The calf crop in 2002 is estimated at 9.1 million head, which reflects well below average fertility and higher mortality rates. Official ABS calf crop figures are unavailable for the Australian cattle industry.

Slaughter: Cattle slaughter in 2003 is projected at 8.55 million head, down approximately six percent from 2002. The dip in projected slaughter rates is due to an anticipated return to herd rebuilding following the depopulation that occurred during the drought. Post expects that improving cattle prices and a return to more normal weather conditions will encourage producers to increase cattle numbers. ABS slaughter figures for the first half of 2003 show a three percent drop in slaughter versus the year-earlier figure.

Cattle slaughter in 2004 is forecast to fall to 8.14 million head, the lowest slaughter level since 1996 (following the 1994/95 drought), and roughly in line with MLA forecasts. The sharp decline in slaughter following the drought is similar to historical data following previous severe droughts.

Cattle slaughter in 2002 is estimated at 9.01 million head, relatively unchanged from Post's previous report (GAIN Report #AS3004, Livestock and Products Semi-Annual Report, 2/10/03) and reflecting preliminary ABS estimates. This is the highest slaughter level since the great herd liquidation of the 1970's, when annual slaughter reached 12.7 million.

Cattle on Feed: Grain finishing of cattle in Australia continues to expand as producers seek to increase the quality and value of their products and to meet strong demand for grain-fed beef in Japan and domestically. In 2002/03, ABARE estimates about 1.95 million cattle were slaughtered off feed, a slight dip from 2001/02, but still up by a factor of three over the last decade. ABARE attributes the dip in the longer-term upward trend to higher grain and fodder prices and reduced feeding margins. A continuation of relatively high feed prices is expected to limit growth in fed cattle in 2003 and 2004. Longer term, ABARE projects about 2.4 million head of cattle will be slaughtered off feed in 2007/08. To meet this projection, Australian producers will continue to reduce grass fed steer and bullock production in favor of more feeder calf production.

Of total Australian adult cattle slaughter, about 27 percent are sourced from the feedlot sector, constituting about 30 percent of total beef production. In the early 1990's, about nine percent of the national adult cattle slaughter was from the feedlot sector, accounting for about 15 percent of total beef production. According to ABARE, about 47 percent of all feedlot cattle are destined for the domestic market, with the Japanese market taking about 46 percent. Over the last several years, the proportion of feedlot cattle destined for the domestic market has grown relative to that shipped to Japan.

Production: Beef and veal production in 2003 is projected at 1,946 TMT in carcass weight equivalents (CWE), seven percent lower than in 2002. ABS statistics show only a slight decline in production during the first half of 2003, versus the year-earlier period. A return to more normal weather conditions is likely to keep slaughter relatively low in the second half of 2003. These lower slaughter numbers will be partially offset by heavier slaughter weights as the drought dissipates.

Production in 2004 is forecast at 1,935 TMT (CWE), in line with the most recent figures from MLA. Lower slaughter figures are expected to be partially offset by heavier slaughter weights as seasonal conditions and pasture availability return to more normal levels. The lower slaughter and production figures forecast for 2004 reflect a return to herd rebuilding, following one of the worst droughts in a century.

Beef and veal production in 2002 is estimated at 2,089 TMT (CWE), largely unchanged from Post's previous report and in line with official ABS and industry figures.

Consumption

Beef and veal consumption is projected at 685 TMT in 2003 and is forecast to fall to 657 TMT in 2004. ABS does not provide official consumption figures for beef. ABARE provides historical consumption figures, which places annual beef consumption at about 700 TMT. ABARE statistics show per capita beef consumption falling steadily from 41.8 kilograms per capita in 1997, to 33.7 kilograms in 2001. In the late 1970's, ABARE estimated Australian beef consumption at almost 70 kilograms per capita.

Stocks

Beef stocks are estimated at relatively low levels, reflecting the commercial environment in which beef is produced. ABS does not publish official beef stock figures. A recent ABARE publication places beef stocks constant at 30,000 MT over an extended number of years.

Trade

Exports: Beef and veal exports in 2003 are projected at 1,283 TMT in carcass weight equivalents (CWE), about six percent lower than in 2002, but still near the record established in 2001. Official ABS figures for the first half of 2003 show a small increase in exports. The export pace is expected to slow in the second half of the year, reflecting lower slaughter rates as producers attempt to rebuild their herds. (Shipped weight is converted to CWE using a conversion factor of 1.43).

Exports are forecast to rise slightly in 2004 to 1,300 TMT (CWE), in line with industry projections. Heavier slaughter weights are expected to offset the slightly lower forecast for the number of cattle going to slaughter.

Beef and veal exports in 2002 are estimated at 954,843 MT (shipped weight), slightly below the record level of the previous year.

Australia's beef and veal exports in 2002 were valued at approximately A\$4.1 billion. Exports account for about two-thirds of domestic production, with major export destinations being the United States, Japan, Korea, Canada and Taiwan. The United States was Australia's top export market for Australian beef and veal in 2002, on both a volume and value basis. The expectation is that export value (in local currency) for beef and veal will be down sharply in 2003, due to lower export volume and the stronger Australian dollar.

United States: The United States was Australia's largest export market for beef in 2002, taking about 41 percent of all volume and accounting for about 39 percent of the value of all shipments. Beef exports to the United States are primarily frozen boneless product destined for manufacturing. In recent years, Australia has lost some share in the U.S. beef market to product from Canada.

Australian beef exported to the United States is subject to a country-specific tariff rate quota (TRQ). Under the TRQ, a quantity of up to 378,214 MT of Australian beef is assessed a relatively low U.S. tariff of US 4.4 cent/kg. Shipments above this quantity are subject to an above or over-quota tariff of 26.4 percent. The TRQ is administered on a calendar year basis.

Australia filled the in-quota portion of the U.S. TRQ in 2001 for the first time in a number of years. The Australian Government implemented a controversial TRQ allocation scheme for exports in 2002 that allocates the U.S. TRQ among Australian shippers (See GAIN Report #AS2033, "New Export Scheme for Beef to the U.S. Announced" for further information on the quota scheme.) According to projections by ABARE, Australia is not expected to again fill the U.S. TRQ until around 2006-07.

Japan: Japan has been a leading destination for Australian beef in recent years, particularly since the Japanese adopted market-opening measures in early 1990's. Australian beef shipments to Japan consist mostly of higher-valued products, that primarily compete against Japanese wagyu and dairy steer beef, and imports from the United States. The Japanese beef market was severely impacted by the discovery of BSE in a Japanese dairy cow in September 2001 and subsequent cases extending through to January 2003. Immediately following the BSE discovery, Japanese beef consumption slumped and prices plummeted, with a corresponding impact on import volume.

By the second half of 2002, Japanese beef demand was rebounding and imports began to rise. However, rising imports reached a level (volume) that triggered a temporary increase in Japan's import tariff, known as a safeguard or "snapback" tariff. The tariff "snapback", which took effect on August 1, 2003, increased the Japanese import tariff rate on chilled beef from 38.5 percent to 50 percent, or by the equivalent of 29.9 percent. The safeguard can now be in effect until the end of the Japanese fiscal year on March 31, 2004. The Australian Government and the cattle industry argued strongly, but unsuccessfully, for the Japanese to defer from taking this action.

The Japanese "snapback" was a side agreement to the WTO Agreement on Agriculture, which allows Japan to invoke a safeguard to protect its beef industry in the event of a rapid rise in imports. Under this agreement, Japan's beef import tariff can be raised to the maximum WTO bound rate, or 50 percent, when quarterly imports of chilled or frozen beef exceed 17 percent of the volume in the comparable period in the previous year. The beef safeguard for frozen beef has been invoked twice, from August 1995 to March 1996 and from August 1996 to March 1997.

Republic of Korea: Korea represents a growing market for Australian beef and is expected to take increasing quantities, particularly chilled product. Exports to Korea are being driven by recent market liberalization and a relatively strong domestic economy. Australia faces stiff competition in the market from the United States and would also face strong competition from the South American suppliers if their disease status permitted them access to the market. Korea's beef quotas were replaced by import tariffs in 2001. The current Korean tariff on beef imports from Australia is 40.4 percent.

Canada: Australia's exports to Canada are dominated by manufacturing beef. Shipments to Canada have grown sharply in the last several years due in large part to the closure of the Canadian market to beef from Argentina and Uruguay because of outbreaks of foot and mouth disease in 2001, and a significant decline in product arriving from the United States.

Australian beef shipments to Canada are subject to a TRQ, which is set at 35,000 MT. Shipments above this quantity are subject to a tariff of 26.5 percent. With supply

disruptions from South America, Canada has offered Australian suppliers supplementary permits for over-quota shipments. However, Uruguay recently regained access to the Canadian market, which will displace some Australian product. And, the discovery of one BSE-infected beef cow in Canada in May of this year will further disrupt trade flows as Canadian product that would normally enter export channels competes with imports in the domestic market.

China: Australia signed new market access protocols for beef and sheep and goat meat with China on June 26, 2003. The protocols establish quarantine and inspection requirements for Australia's red meat exports to China. Up until this point, Australian exports were limited to supplies for deluxe hotels, embassies and factories for reprocessing. In 2002, Australia's meat exports to China totaled about 4,000 MT, valued at A\$24 million. According to MLA, the new protocols are expected to be of most benefit to sheep meat and offal, which currently dominate Australian exports. According to Australian Government sources, Chinese officials will conduct an accreditation trip to Australia later this year. China's tariff on beef from Australia is 18.6 percent.

European Union: The EU maintains a TRQ for "high quality beef" imported from Australia. The "in-quota" tariff is 20 percent, which is assessed on quantities up to the 7,000 MT. On imports above this quantity, the EU assesses a tariff of 12.8 percent plus a specific tariff of 141.4 to 304.1 euros/kilogram (an estimated combined tariff equivalent of about 45 percent.)

South American Competition: Disease outbreaks in South America have locked these suppliers out of major beef markets in North America and North Asia, although beef shipments from Uruguay have recently resumed to both the United States and Canada. South American beef, however, continues to provide stiff competition for Australia in markets in the EU, Hong Kong, the Philippines and other Southeast Asian nations, Russia, the Middle East, and North Africa.

Australian Dollar: A major contributor behind Australia's strong livestock sector in recent years has been the longer-term decline in the Australian dollar, particularly against the U.S. and Japanese currencies. The weaker Australian dollar made Australian beef less expensive and much more competitive in these and other key export markets. However, depreciating South and Southeast Asian currencies, as a result of the 1997 Asian financial crisis, adversely impacted Australia's live cattle exports to this region. In addition, steep depreciations in the Brazilian and Argentine currencies have made these two suppliers much more competitive in some of Australia's beef markets.

The Australian dollar is currently valued at about US\$0.65, representing more than a 30 percent rise since reaching a low point in early 2001. The Australian dollar traded at relative highs of US\$0.90 in 1989 and around US\$0.80 in 1997, before falling rather steadily to a low of less than US\$0.50 in early 2001. Relative exchange rates are very important to Australia's beef and live cattle trade and overall industry profitability, notably because much of international beef trade is done in U.S. dollars.

**TABLE 2: Australia's Beef and Veal Exports, 1995, 2000-2002
(shipped weight, thousand metric tons)**

COUNTRY	1995	2000	2001	2002
United States	220.9	362.8	401.3	387.2
Japan	324.0	321.7	320.8	238.0
Korea	65.4	80.6	64.0	84.8
Canada	32.9	40.5	48.9	82.4
Taiwan	31.0	30.0	29.5	34.4
Others	97.0	93.8	108.7	123.1
TOTAL	771.2	929.4	973.2	949.9

Source: ABS, ABARE.

**TABLE 3: Australia's Beef and Veal Exports, 1995, 2000-2002
(million Australian \$'s, FOB)**

COUNTRY	1995	2000	2001	2002
United States	517	1,208	1,715	1,599
Japan	1,563	1,518	1,737	1,242
Korea	173	244	258	339
Canada	81	145	196	318
Taiwan	112	122	134	152
Others	277	336	446	477
TOTAL	2,723	3,573	4,486	4,127

Source: ABS, ABARE.

Live Cattle Exports: Live cattle exports in 2003 are projected at 950,000 head, down slightly from the record level of 2002. Despite a surge in exports during the first half of 2003, a steady return to more normal weather conditions and reduced cattle inventories are expected to combine to slow the export pace for the rest of the year. This slowdown in exports is expected to persist into the first part of 2004, before rising in the later part of the year. Total live cattle exports for 2004 are forecast to fall slightly to 920,000 head, which still represents a historically high level.

Live cattle exports in 2002 are estimated at 972,000 head, in line with official ABS statistics and representing a record level, according to ABARE's historical data. High inventory levels,

extremely low pasture availability and solid export demand combined to drive live cattle exports to this record level.

Australia is the world's largest live cattle exporter. Australia's live cattle exports have grown sharply, rising from about 100,000 head in 1990, to the record of nearly one million head estimated in 2002. Western Australia and the Northern Territory each account for about one-third of Australia's live cattle exports, with Queensland accounting for another 20 percent of the total. About one-quarter of all live cattle is exported from the Port of Darwin in the Northern Territory, with Townsville, Queensland; and Fremantle, Western Australia accounting for 14 percent and 13 percent of all cattle exports, respectively.

Live cattle exports in 2002 were valued at a record of about A\$580 million and accounted for about 11 percent of total estimated adult cattle turnoff. The leading live cattle export markets are Indonesia, Egypt, the Philippines, Malaysia, Saudi Arabia and Israel. A substantial number of live cattle are also shipped to Mexico, Japan, China, Kuwait and Jordan.

**TABLE 4: Australia's Live Cattle Exports, 1995, 2000-2002
(thousand head shipped)**

COUNTRY	1995	2000	2001	2002
Indonesia	218	297	288	426
Egypt	15	208	203	144
Philippines	186	224	98	113
Malaysia	38	56	77	91
Saudi Arabia	0	0	21	54
Israel	0	16	33	48
Others	60	95	102	476
<i>Breeding</i>	38	9	25	17
TOTAL	517	896	822	968

Source: ABS, ABARE.

TABLE 5: Australia's Live Cattle Exports, 1995, 2000-2002
(million Australian \$'s, FOB)

COUNTRY	1995	2000	2001	2002
Indonesia	134	143	172	254
Egypt	10	130	154	95
Philippines	87	118	58	66
Malaysia	20	26	38	45
Saudi Arabia	0	0	15	32
Israel	0	9	15	24
Others	15	46	62	65
TOTAL	266	472	514	581

Source: ABS, ABARE.

Marketing

Meat and Livestock Australia and the Levy: Meat & Livestock Australia Limited (MLA) is a producer-owned company that provides services to the red meat (beef, mutton/lamb, goat) industry, including producers, processors, exporters, live animal exporters and retailers. MLA's major activities are seeking improvements in market access, building demand for Australian red meat and conducting research and development. MLA is primarily funded by a transaction levy paid by producers on livestock sales. These funds are supplemented by cooperative contributions from individual processors, wholesalers, food service operators and retailers. Processors and live animal exporters pay levies voluntarily to MLA. The Australian government also provides dollar-for-dollar matching funds for R&D activities.

MLA conducts market research, market promotion and trade support activities domestically and in major foreign markets. In addition to its head office in Sydney, MLA maintains offices in: Washington, DC for the Americas; Frankfurt, Germany for Europe; Tokyo, Japan; Seoul, Korea; and Bahrain for the Middle East and Africa. In addition, MLA has trade representatives located in Singapore, Malaysia, Indonesia, the Philippines, Hong Kong and Taiwan.

A "Livestock Transaction Levy" is collected on the sale of livestock (cattle, sheep and goats) and the transfer of livestock between the production and processing stages. The Federal Government establishes the levy rates, which are currently set at A\$3.50 per head for cattle and A\$0.90 for calves. Animal Health Australia (AAHC), Australian National Residue Survey (NRS), and MLA are recipients of the funds generated by the levy.

There are also a number of industry councils and other associations that represent various components of the Australian livestock sector, including the Cattle Council of Australia, Australian Lot Feeders' Association, Australian Livestock Exporters' Association, and the Sheepmeat Council of Australia. The newly formed Australian Meat Industry Council is the

national industry body representing the red meat processing industry and is the result of a merger between the Australian Meat Council and the National Meat Association. Also, Agriculture, Fisheries and Forestry Australia (AFFA), the Commonwealth agriculture department, licenses livestock exporters and ensures compliance with prescribed rules.

Policy

National Livestock Identification Scheme: MLA has developed the National Livestock Identification Scheme (NLIS) in order to improve access to high value export markets, increase trace back effectiveness, and for improved slaughter performance feedback and product integrity.

Under NLIS, cattle producers will be required to identify cattle with an approved NLIS identification device. The system provides for a permanent “whole of life” cattle identification system via the application of an ear tag or rumen bolus on the property of birth. When fully implemented, a national database will be capable of electronically tracking individual cattle through the value chain.

MLA reports that the NLIS system will provide much faster and more accurate trace back in the event of an exotic disease incursion or in detecting chemical residues, so as to deal more effectively with such issues while ensuring a minimum disruption to trade flows. Furthermore, the system provides many practical benefits, such as inventory control on farm or at feedlots, as well as carcass feedback for genetic improvement. This system is already in use for exporting beef to the EU and MLA believes it will allow Australia to quickly respond when other markets make similar demands in the future.

Animal health laws in Australia are the responsibility of individual states. National agreement was reached in March 2003 for a set of national regulatory standards for NLIS implementation. NLIS is now mandatory in the state of Victoria, with other state and territory governments agreeing to implement the system by July 1, 2005.

Some exemptions to the scheme have been created for cattle sent direct from property of birth to slaughter or live export. “Bobby” calves consigned direct to sale yards or slaughter are also exempt from the scheme.

The NLIS scheme has been very controversial. Livestock producers, particularly large-scale operators in northern Australia, argue that the system will add significant costs and is currently not needed, except in a limited number of markets.

Free Trade Agreement Negotiations: Australia and the United States are currently engaged in Free Trade Agreement (FTA) negotiations. Australia is seeking to use the FTA to garner improved access for its number one agricultural export item to the United States – beef. Specifically, Australia is seeking the speedy elimination of U.S. tariffs on beef and/or a significant expansion in the current tariff rate quota. Most of Australia’s tariffs on agricultural products imported from the United States range from zero to five percent. FTA negotiations are scheduled to be complete by the end of 2003.

Quarantine Issues: There are several quarantine issues that affect bilateral trade in cattle and beef. Australia is seeking a change in the U.S. requirements that currently restrict entry of Australian feeder cattle into the United States. And, in August 2003, Australia relaxed the requirement that imported beef must meet a 30-day aging requirement before entering the country. This action allows the United States improved market access for beef.

SWINE

The Australian pork industry has undergone considerable consolidation. Nationally, there are currently about 2,500 pork producers, which is down sharply from the 50,000 that were in business in 1960. The industry is also now characterized by a relatively small number of very large operators, with approximately 80 percent of all pork production accounted for by about 20 percent of producers.

Production

Inventory: Australia's swine inventory at the start of 2003 is estimated at 2.46 million head, four percent lower than the level of a year earlier, and down significantly since Post's last report (see Report #AS3004). A sharp fall in feed grain availability brought on by the drought and record high feed grain prices put downward pressure on pig numbers.

Opening inventory for 2004 is forecast to rise substantially to 2.95 million head, a number much more representative of the longer-term average. A steady return to normal weather conditions is anticipated to improve feed grain availability, lower feed grain prices, and help boost inventory.

Post has revised the opening inventory number for 2002 downwards to 2.56 million head, in line with official ABS figure.

The sow beginning stock number for 2003 is estimated at 335,000 head, six percent below the year-earlier figure. The sow beginning inventory number for 2004 is forecast at 358,000 head, as producers are expected to benefit from more favorable weather conditions and lower feed grain prices.

The beginning sow inventory for 2002 has been revised upwards to 356,000 head, and is now in line with official ABS figures. This number is significantly higher than the industry's previous estimate of 314,000 head.

Production (Pig Crop): The pig crop number for 2003 is projected at 5.40 million head, two percent lower than in 2002. The pig crop in 2004 is forecast to rise two percent, to 5.51 million head. A return to more normal weather conditions in 2004 is expected to allow the industry to resume its longer-term incremental growth in inventory numbers. Post has revised the estimated pig crop in 2002 upward slightly to 5.5 million head.

Official pig crop numbers are unavailable. The pig crop is generally derived using inventory and slaughter figures.

Slaughter: Slaughter in 2003 is projected at 4.9 million head, 13 percent below the year-earlier figure and in line with ABARE figures. The effects of the drought on animal husbandry and the decline in the pig crop contributed to the reduced slaughter. Grain production is currently forecast to rise substantially from the drought-reduced levels that characterized 2002/03. Many producers will be encouraged to withhold stock from slaughter in the second half of 2003 in anticipation of improved feed grain supplies.

Slaughter in 2004 is forecast to increase to 5.25 million head driven by improved inventory numbers, a higher pig crop and improved feed grain availability.

Slaughter in 2002 is estimated at 5.6 million head, unchanged from Post's previous report and the highest level in over a decade. Sharply lower grain production in 2002 and soaring

grain prices forced many growers to slaughter stock that otherwise would have been retained.

Production (pig meat): Pig meat production in 2003 is projected at 361,000 MT, 11 percent lower than a year earlier and in line with current figures from ABARE. Production is forecast rise steeply in 2004, driven by a larger inventory and higher slaughter rates. Lower anticipated feed grain prices should also substantially increase slaughter weights in 2004.

Pig meat production in 2002 is estimated at 407,000 MT, the highest production level in over a decade and in line with the official ABS production figure.

Consumption

Pork consumption in 2003 is projected at 382,000 MT, up slightly from 2002 and reflecting the upward trend in consumption of pork. Domestic consumption is forecast to rise to 395,000 MT in 2004.

Official statistics for domestic pork consumption are unavailable.

Stocks

The Government of Australia does not have programs to encourage the accumulation of stocks of pig meat. Stock levels of pork in Australia are reflective of the commercial environment in which pig meat is produced.

Official statistics on stock levels of pig meat are unavailable in Australia.

Trade

Exports: Pork exports in 2003 are projected at 69,000 MT in carcass weight equivalents (CWE), seven percent lower than a year earlier. Official ABS data have exports increasing slightly for the first half of 2003. However, an anticipated increase in feed grain availability and a subsequent fall in slaughter numbers should restrict full-year exports.

Pork exports in 2004 are forecast at 86,000 MT (CWE), a figure more representative of the export level prior to the drought.

Official ABS statistics have pork exports in 2002 at 59,200 MT in shipped weight, or the equivalent of 74,000 MT using a conversion factor of 1.25 to convert to CWE.

Australia's pork exports have grown considerably in recent years, rising from less than A\$71 million in 1998/99 (July/June) to almost A\$250 million expected in 2002/03. Australia, which typically shipped frozen pork to New Zealand, the EU and assorted Asian markets, has now significantly expanded these exports, principally to markets in Japan, Korea and the Philippines. In addition, Australia's exports of fresh/chilled pork, which were less than 200 MT in the mid 1990's, have risen to over 40,000 MT. Most of Australia's fresh/chilled pork exports are destined for Singapore and Japan.

Australia's pork exports to Japan will be impacted by a Japanese "snapback" tariff on imported pork that went into effect on August 1, 2003. A surge in Japanese imports caused the snapback to be triggered, which pushed the Japanese import tariff on pork up from 546.53 yen to 681.08 yen per kilogram. The higher pork tariffs will run through the end of March 2004. This is the third year in a row that the Japanese "snapback" tariff on pork has been invoked.

Imports: Australia's pork imports have also grown significantly in recent years. Pork imports in 2001/2002 are estimated at about A\$210 million. Given Australia's stringent quarantine regime, Canada, Denmark and New Zealand are the only countries permitted to ship uncanned, uncooked pork into the country. Canada supplies about 60 percent of pork imports by volume, Denmark supplies about 35 percent, and the remainder is supplied by New Zealand or canned product.

Under Australia's current quarantine policy, uncanned and uncooked pork meat can only be imported from Canada, Denmark and the South Island of New Zealand. Pork from Canada and Denmark must be imported deboned and the pork must be cooked on arrival in Australia. In addition, pork can be cooked in Canada prior to export, whereas pork from Denmark must be cooked upon arrival in Australia. Canned pork that has undergone heat treatment may also be imported from any country.

Pork imports from the United States in 2004 are forecast at 10,000 MT. This figure assumes the final import risk analysis for imported pork will be approved by the early part of 2004 and that the level of access granted will be roughly comparable to that of Canada and Denmark.

TABLE 6: Australia's Pork Trade, Fiscal Years, (July-June) 1998/99 - 2002/03 (volume in TMT, value in million A\$)

COUNTRY	1998/99	1999/00	2000/01	2001/02	2002/03f
<i>Exports</i>					
Volume	16	39	44	59	57
Value	71	159	186	265	246
<i>Imports</i>					
Volume	39	58	28	44	47
Value	NA	NA	NA	NA	NA

Volume is in shipped weight. NA means not available.

Source: ABS, ABARE.

Policy

Draft Quarantine Changes for Pork Imports: In August 2003, Australia released new proposed quarantine requirements for the importation of pork, which could provide access to Australia for certain pork products from the United States. Final changes to the quarantine requirements are pending a formal comment period; Biosecurity Australia will accept comments through October 13, 2003, with a Final IRA Report taking into account comments and any new information received. The Final Import Risk Analysis (IRA) Report will be open to appeal for a period of 30 days after release. (See GAIN Report #AS3025 entitled Draft Quarantine Changes for Pork Imports for further information regarding the Draft IRA.)

Proposed quarantine conditions outlined in the IRA would likely permit access into the Australian market for certain U.S. pork products. Canada and Denmark already have access to the Australian market for cooked pork, and together have captured a significant portion of the domestic pork market.

Gaining access to the Australian market for pork has been a major objective for the U.S. government and the U.S. pork industry. USDA's Animal Plant Health Inspection Service and the U.S. pork industry are currently studying the Draft IRA to ascertain potential issues and market access that would be afforded to U.S. pork and pork products.

In March 2003, the European Union announced it had requested Australia to enter into WTO formal consultations on its quarantine system for imports of agricultural products. In this action, the EU specifically noted delays in outstanding requests for access to the Australian market for fresh pork. (See GAIN Report #AS3011 entitled The EU Challenges Australia's Quarantine System for further information on the EU action.) The EU has now formally requested that a WTO panel be formed to rule on their complaint.

Marketing

Australian Pork Limited and the Levy: Australian Pork Limited (APL) is the producer-owned not-for-profit provider to the pork industry. APL has a contract with the Federal Government to allow it to receive and administer marketing and research levies collected by the Commonwealth, along with Commonwealth-provided dollar-for-dollar matching funds for certain research and development activities. APL is directly accountable to its levy paying members for the programs it delivers and the money it spends.

Australian pork producers contribute about A\$8.5 million for pork promotion and research through a national Pig Slaughter Levy of A\$1.65 per pig. The levy is payable on slaughter of pigs for sale for human consumption and is payable by the producer. The producer is defined as the owner of the pig at the time of slaughter. The levy commenced in 1971.

Proposed Pork Import Levy: The Australian Government has proposed that importers of processed pork products contribute to a voluntary promotional levy to raise as much as an additional A\$1 million for marketing of pork on the domestic market. Industry sources indicate that the Minister of Agriculture wrote to all pork importers to determine whether they would be willing to pay a levy similar to that paid by Australian producers and, if not, for proposals for an alternative approach. It is unclear whether importers would also be offered representation on the board of APL. Further details of this proposal are unavailable.

Recent Post Reports on Livestock and Livestock-Related Issues

AS3025, Draft Quarantine Changes for Pork Imports, 08/15/03
AS3011, The EU Challenges Australia's Quarantine System, 04/28/03
AS3004, Livestock and Products Semi-Annual Report, 02/10/03
AS2033, New Export Scheme for Beef to the U.S. Announced, 10/22/02

These reports are available at the FAS homepage, which is located at www.fas.usda.gov

APPENDIX 1

PS& D Tables

PSD Table

Country	Australia						
Commodity	Animal Numbers, Cattle						(1000 HEAD)
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official	Estimate [1]	USDA Official	Estimate [1]	USDA Official	Estimate [New]	
Market Year Begin	01/2002		01/2003		01/2004		MM/YYYY
Total Cattle Beg. Stks	28711	27870	28391	26900	28441	27500	(1000 HEAD)
Dairy Cows Beg. Stocks	3220	2123	3140	2056	0	2063	(1000 HEAD)
Beef Cows Beg. Stocks	12500	12652	12250	12000	0	12250	(1000 HEAD)
Production (Calf Crop)	10100	9131	10200	10150	0	9950	(1000 HEAD)
Intra EC Imports	0	0	0	0	0	0	(1000 HEAD)
Other Imports	0	0	0	0	0	0	(1000 HEAD)
TOTAL Imports	0	0	0	0	0	0	(1000 HEAD)
TOTAL SUPPLY	38811	37001	38591	37050	28441	37450	(1000 HEAD)
Intra EC Exports	0	0	0	0	0	0	(1000 HEAD)
Other Exports	970	972	1000	950	0	920	(1000 HEAD)
TOTAL Exports	970	972	1000	950	0	920	(1000 HEAD)
Cow Slaughter	3700	3930	3300	3500	0	3500	(1000 HEAD)
Calf Slaughter	975	1081	925	950	0	935	(1000 HEAD)
Other Slaughter	4725	4068	4875	4100	0	3700	(1000 HEAD)
Total Slaughter	9400	9079	9100	8550	0	8135	(1000 HEAD)
Loss	50	50	50	50	0	50	(1000 HEAD)
Ending Inventories	28391	26900	28441	27500	0	28345	(1000 HEAD)
TOTAL DISTRIBUTION	38811	37001	38591	37050	0	37450	(1000 HEAD)
Calendar Yr. Imp. from U	0	0	0	0	0	0	(1000 HEAD)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 HEAD)

PSD Table

Country	Australia						
Commodity	Meat, Beef and Veal				(1000 MT CWE)	(1000 HEAD)	
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official	Estimate [1]	USDA Official	Estimate [1]	USDA Official	Estimate [New]	
Market Year Begin	01/2002		01/2003		01/2004		MM/YYYY
Slaughter (Reference)	9400	9079	9100	8550	0	8135	(1000 HEAD)
Beginning Stocks	38	38	68	63	50	42	(1000 MT CWE)
Production	2100	2089	2050	1946	0	1935	(1000 MT CWE)
Intra EC Imports	0	0	0	0	0	0	(1000 MT CWE)
Other Imports	5	1	4	1	0	0	(1000 MT CWE)
TOTAL Imports	5	1	4	1	0	0	(1000 MT CWE)
TOTAL SUPPLY	2143	2128	2122	2010	50	1977	(1000 MT CWE)
Intra EC Exports	0	0	0	0	0	0	(1000 MT CWE)
Other Exports	1361	1365	1425	1283	0	1300	(1000 MT CWE)
TOTAL Exports	1361	1365	1425	1283	0	1300	(1000 MT CWE)
Human Dom. Consumpti	714	700	647	685	0	657	(1000 MT CWE)
Other Use, Losses	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Dom. Consumpti	714	700	647	685	0	657	(1000 MT CWE)
Ending Stocks	68	63	50	42	0	20	(1000 MT CWE)
TOTAL DISTRIBUTION	2143	2128	2122	2010	0	1977	(1000 MT CWE)
Calendar Yr. Imp. from U	0	0	0	0	0	0	(1000 MT CWE)
Calendar Yr. Exp. to U.S.	541	554	541	541	0	541	(1000 MT CWE)

PSD Table

Country	Australia						
Commodity	Animal Numbers, Swine						(1000 HEAD)
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official	Estimate [1]	A Official	Estimate [1]	A Official	Estimate [New]	
Market Year Begin	01/2002		01/2003		01/2004		MM/YYYY
TOTAL Beginning Stocks	2912	2563	2729	2461	2450	2950	(1000 HEAD)
Sow Beginning Stocks	314	356	298	335	0	358	(1000 HEAD)
Production (Pig Crop)	5458	5515	5323	5399	0	5508	(1000 HEAD)
Intra EC Imports	0	0	0	0	0	0	(1000 HEAD)
Other Imports	0	0	0	0	0	0	(1000 HEAD)
TOTAL Imports	0	0	0	0	0	0	(1000 HEAD)
TOTAL SUPPLY	8370	8078	8052	7860	2450	8458	(1000 HEAD)
Intra EC Exports	0	0	0	0	0	0	(1000 HEAD)
Other Exports	2	14	2	10	0	10	(1000 HEAD)
TOTAL Exports	2	14	2	10	0	10	(1000 HEAD)
Sow Slaughter	0	0	0	0	0	0	(1000 HEAD)
OTHER SLAUGHTER	5639	5603	5600	4900	0	5248	(1000 HEAD)
Total Slaughter	5639	5603	5600	4900	0	5248	(1000 HEAD)
Loss	0	0	0	0	0	0	(1000 HEAD)
Ending Inventories	2729	2461	2450	2950	0	3200	(1000 HEAD)
TOTAL DISTRIBUTION	8370	8078	8052	7860	0	8458	(1000 HEAD)
Calendar Yr. Imp. from U	0	0	0	0	0	0	(1000 HEAD)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 HEAD)

PSD Table

Country

Australia

Commodity

Meat, Swine

(1000 MT CWE)(1000 HEAD)

	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official	Estimate [1]	USDA Official	Estimate [1]	USDA Official	Estimate [New]	
Market Year Begin	01/2002		01/2003		01/2004		MM/YYYY
Slaughter (Reference)	5639	5602	5600	4900	0	5248	(1000 HEAD)
Beginning Stocks	1	1	11	10	11	11	(1000 MT CWE)
Production	411	407	390	361	0	420	(1000 MT CWE)
Intra EC Imports	0	0	0	0	0	0	(1000 MT CWE)
Other Imports	60	54	60	91	0	77	(1000 MT CWE)
TOTAL Imports	60	54	60	91	0	77	(1000 MT CWE)
TOTAL SUPPLY	472	462	461	462	11	508	(1000 MT CWE)
Intra EC Exports	0	0	0	0	0	0	(1000 MT CWE)
Other Exports	78	74	80	69	0	86	(1000 MT CWE)
TOTAL Exports	78	74	80	69	0	86	(1000 MT CWE)
Human Dom. Consumpti	383	378	370	382	0	395	(1000 MT CWE)
Other Use, Losses	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Dom. Consumpti	383	378	370	382	0	395	(1000 MT CWE)
Ending Stocks	11	10	11	11	0	27	(1000 MT CWE)
TOTAL DISTRIBUTION	472	462	461	462	0	508	(1000 MT CWE)
Calendar Yr. Imp. from U	0	0	0	0	0	10	(1000 MT CWE)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT CWE)